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RUEHBU/AMEMBASSY BUENOS AIRES 4631  
RUEHCV/AMEMBASSY CARACAS 1886  
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RUEHME/AMEMBASSY MEXICO 1825  
RUEHMN/AMEMBASSY MONTEVIDEO 4093  
RUEHMO/AMEMBASSY MOSCOW 0178  
RUEHQT/AMEMBASSY QUITO 4522  
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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PREL](#) [BL](#)  
SUBJECT: UPDATE ON YPFB NEGOTIATIONS WITH ARGENTINA,  
BRAZIL, AND PRIVATE INVESTORS

REF: A. LA PAZ 1805

[1B](#). LA PAZ 2196  
[1C](#). LA PAZ 1248  
[1D](#). LA PAZ 2661

[11](#). (SBU) Summary: YPFB (Bolivia's state-owned oil company) President Juan Carlos Ortiz told Econoff on October 18 that Bolivia will sign a twenty-year natural gas supply contract with Argentina on October 19. Bolivia will agree to provide 27.7 million cubic meters per day of gas to its neighbor after the completion of a new pipeline in three years, at a variable price currently set at USD 5 per million BTU. Bolivia has extended the gas price negotiation deadline with Brazil until November 10 and is threatening to bring Brazil to arbitration if no agreement is reached by then. Ortiz said YPFB is working diligently to meet the October 28 contract negotiation deadline, but has only provided producing companies a model contract and two out of seven annexes. YPFB negotiations with Transredes and Petrobras to take over majority ownership of those companies are stalled. Comment: The agreement with Argentina seems overly optimistic, as Bolivia will need a significant amount of investment to produce the 50 percent more gas required to meet its new obligations. End comment. End summary.

#### Bolivia-Argentina Gas Supply Contract

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[12](#). (SBU) According to the Bolivian state oil company YPFB President Juan Carlos Ortiz, YPFB will sign a gas supply contract with Argentina on October 19. Argentine President Kirshner will travel to Bolivia for the signing of the twenty-year agreement, which will contain a price formula that will self-adjust based on market conditions. The current price will be USD 5 per million BTU, maintaining the price agreed upon by the two countries on June 29 (ref A). Ortiz said that Bolivia will commit to providing Argentina 27.7 million cubic meters per day within three years (a 20

million cubic meter increase over the current commitment), while Argentina will commit to constructing a pipeline on the Argentine side of the border. Bolivia will be responsible for constructing the pipeline on the Bolivian side, but Ortiz explained that this portion will only be 50 kilometers and cost USD 40 million. Ortiz claimed that the contract will benefit Bolivia with USD 1.8 billion of additional hydrocarbons income over the next twenty years. When asked how Bolivia will provide the additional gas faced with the fact that production is at its maximum and investment at a minimum, Ortiz responded that YPFB plans to develop eleven areas in partnership with Venezuela's PDVSA, Argentina's ENARSA, or Russia's Gazprom. Ortiz said that the contract includes restrictions on Argentine sales of Bolivian gas to Chile.

#### No Advance on Bolivia-Brazil Gas Price Negotiations

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¶3. (SBU) Ortiz said that the GOB has extended the gas export price negotiation period with Brazil until November 10. According to Ortiz, if no price is agreed upon by that time, Bolivia will take Brazil to arbitration (ref B).

#### Producer Contract Negotiations Near Deadline

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¶4. (SBU) Ortiz said that YPFB is working diligently to meet the October 28 contract migration deadline. He said that the producing companies have now been provided with model contracts and two out of seven annexes. He argued that with the assurances of having a large market to supply based on agreements with Brazil and Argentina, the companies would not leave, but would compromise in order to take advantage of the good business opportunities offered by Bolivia. He did not respond specifically about what the GOB plans to do if the

deadline cannot be met. He said that the contracts would allow the operators to make reasonable profits, which he considered to be a 12 to 13 percent return in a zero risk market, and would provide sufficient incentives to attract future investment. It is unclear how much of a return this would translate into in the risky environment of Bolivia.

#### Company Take-Over Negotiations Stalled

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¶5. (SBU) Ortiz said that YPFB wants to have a role in daily administration of the five companies -- Transredes, Chaco, Repsol, Petrobras refineries, and the Bolivian Hydrocarbons Logistics Company -- that are destined for GOB majority ownership, not only seats on the boards (ref C). YPFB plans to pay market price for the 16 percent plus one share that it needs to gain majority ownership of Transredes. YPFB has offered Transredes a contract that would enable it to maintain administrative control, but Ortiz explained, not operating control. In prior meetings with Transredes, executives told Econoff that the company is not willing to cede operating control. According to Ortiz, the Inter-American Development Bank (IDB) and the Andean Development Corporation (CAF) agreed to unfreeze Transredes' loans (which were frozen because of YPFB's plan to take over majority ownership of the company) if the restructured company can prove that it has good corporate governance and respect for minority shareholders. (Note: Transredes told us previously that the IDB and CAF had refused to sign the loans over to YPFB as majority shareholder of Transredes (ref D). End note.) According to Petrobras officials, negotiations over control of Petrobras-owned refineries have also stalled, with Petrobras complaining that the GOB's proposed actions will make the refineries unprofitable. Petrobras insists on either maintaining operating control or selling 100 percent of the refinery shares to Bolivian state-owned oil company YPFB.

¶6. (SBU) Comment: The agreement with Argentina seems overly optimistic. Bolivia will need a significant amount of investment to produce the 50 percent more gas required to meet its new obligations to Argentina. Although Bolivia is threatening to take Brazil to arbitration if no new gas price is reached, it seems unlikely that it would actually follow

through with this threat, since Brazil appears to have a better case, as it wants to stick to the price formula in the existing contract between the two countries. Ortiz' estimation of a reasonable return for private investors seems low compared to international standards, but with hydrocarbons prices so high and sunk costs of investments, companies currently working in Bolivia may agree to high tax rates. However, it seems unlikely that Bolivia will be able to attract the amount of new investment needed to meet new supply commitments. Without financing, pipeline operator Transredes will not be able to increase pipeline capacity. Industries in the La Paz area have already begun to feel the crunch of insufficient natural gas supply, and the situation is predicted to reach a grave state by 2008 if additional gas transport investments are not made. End comment.  
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